

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 4313-01
Bill No.: HJR 84
Subject: Taxation and Revenue - General; Taxation and Revenue - Sales and Use;
Firearms; Constitutional Amendments
Type: Original
Date: March 9, 2020

Bill Summary: This proposal proposes an amendment to the Constitution of Missouri relating to a sales tax exemption on firearms and ammunition.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
General Revenue	\$0 or (\$7,800,000) or less than (\$21,063,000 to \$28,863,000)	\$0 or less than (\$42,126,000)	\$0 or less than (\$42,126,000)
Total Estimated Net Effect on General Revenue	\$0 or (\$7,800,000) or less than (\$21,063,000 to \$28,863,000)	\$0 or less than (\$42,126,000)	\$0 or less than (\$42,126,000)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
School District Trust Fund	\$0 or less than (\$7,021,000)	\$0 or less than (\$14,042,000)	\$0 or less than (\$14,042,000)
Conservation Commission Fund	\$0 or less than (\$877,625)	\$0 or less than (\$1,755,250)	\$0 or less than (\$1,755,250)
Parks and Soils State Sales Tax Funds	\$0 or less than (\$702,100)	\$0 or less than (\$1,404,200)	\$0 or less than (\$1,404,200)
Total Estimated Net Effect on <u>Other</u> State Funds	\$0 or less than (\$8,600,725)	\$0 or less than (\$17,201,450)	\$0 or less than (\$17,201,450)

Numbers within parentheses: () indicate costs or losses. This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Total Estimated Net Effect on FTE	0	0	0

☒ Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$100,000 in any of the three fiscal years after implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2021	FY 2022	FY 2023
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Budget & Planning Division (B&P)** state this proposal would exempt all sales of guns and ammunition from state sales tax, if voter approved. This proposal would go to a vote at the next general election in November 2020. For the purpose of this fiscal note, B&P will assume that, if approved, the sales tax exemption would begin January 1, 2021.

Based on data published by the FBI, there has been an average of 551,159 background checks for gun purchases in Missouri from 2016 through 2018. B&P notes that some background checks will not result in a purchase and some will result in multiple purchases. Therefore, for the purpose of this fiscal note, B&P will assume that each background check resulted in the purchase of one gun. Based on research, B&P estimates that the average price of a gun is approximately \$500. Therefore, B&P estimates that this proposal would exempt \$275,579,500 ($551,159 \times \500) in sales from state sales tax.

Based on research, B&P determined that the average price of a box of ammunition for a handgun is \$125, for a rifle \$25, for a shotgun \$50, and for a muzzleloader is \$10. B&P then used target shooting and hunting data as well as the estimated number of guns sold (above) to estimate approximately \$832,148,638 in ammunition sales would become exempt under this proposal.

B&P estimates that this proposal could exempt \$1,107,728,138 (\$275,579,500 guns + \$832,148,638 ammunition) in sales from all state sales taxes. B&P notes that this proposal would not apply to local sales taxes. Therefore, this proposal could reduce General Revenue (GR) by \$33,231,844 annually.

B&P notes that while this proposal will reduce GR and other state funds, it will not impact Total State Revenue (TSR) as it requires voter approval.

Officials from the **Missouri Department of Revenue (DOR)** state this constitutional amendment would require there be no state tax levied or imposed on the sales of any firearms or ammunition in this state.

DOR looked into the price of various firearms and ammunition. DOR found no single source that maintains data on the amount of firearms or ammunition that is sold annually. DOR found that prices varied on the different types of firearms:

- Rifles \$500-\$10,000
- Shotguns \$400-\$2,000
- Handguns \$250-\$2,500
- Revolvers \$200-\$1,500
- Ammunition \$20-\$40 per box

ASSUMPTION (continued)

The FBI background check report for 2019 showed 439,729 background checks were completed but does not record the price of the firearm and does not maintain information on ammunition. The Bureau of Economic Analysis shows that in the Personal Consumption Expenditures Report within the Sporting Equipment, Supplies, Guns and Ammunition category, \$73.8 billion was sold last year in the US. Given that the population of Missouri is 1.9% of the total population, DOR assumes \$1,404,200,000 ($\$73,800,000,000 \times 1.9\%$) of the personal sporting goods consumption took place in Missouri.

DOR notes the current state sales tax is 4.225%: General Revenue is 3%, School District Trust Fund is 1%, Conservation Commission is 0.125%, Parks, Soil & Water Funds are 0.1%, Total 4.225%.

The personal sporting goods spending would generate approximately \$59,242,950 ($\$1,402,200,000 \times 4.225\%$) in state sales tax. That sales tax would be distributed among the funds as follows:

- General Revenue \$42,126,000
- School District Trust Fund \$14,042,000
- Conservation Commission \$1,755,250
- Parks, Soil & Water \$1,404,200

DOR estimates this proposal, if adopted by the voters, could result in a loss less than indicated above due to the sporting goods category not being exclusively firearms and ammunition. If not adopted by the voters it would not have an impact.

DOR assumes this constitutional amendment would be voted on by the people at the November 2020 election. Constitutional amendments have an effective date of thirty days after the election, therefore, sometime in December this would become law. For the simplicity of the fiscal note, DOR will assume the exemption begins January 1, 2021 and will only show 6 months of impact in Fiscal Year 2021.

Fund	FY 2021	FY 2022	FY 2023
General Revenue	Less than (\$21,063,000)	Less than (\$42,126,000)	Less than (\$42,126,000)
School District Trust	Less than (\$7,021,000)	Less than (\$14,042,000)	Less than (\$14,042,000)
Conservation Commission	Less than (\$877,625)	Less than (\$1,755,250)	Less than (\$1,755,250)
Parks, Soil & Water	Less than (\$702,100)	Less than (\$1,404,200)	Less than (\$1,404,200)

ASSUMPTION (continued)

For purposes of this fiscal note, **Oversight** will report the revenue reduction(s) equal to a range beginning at \$0 (voters reject the constitutional amendment) to the estimates provided by DOR (voters approve the constitutional amendment).

Officials from the **Missouri Department of Conservation (MDC)** assume an unknown fiscal impact but greater than \$100,000. The Conservation Sales Tax funds are derived from one-eighth of one percent sales and use tax pursuant to Article IV Section 43 (a) of the Missouri Constitution. Exempting all sales of firearms and ammunition from sales tax will decrease sales tax collected and thus would decrease revenue to the Conservation Sales Tax funds. MDC assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Oversight notes MDC's Conservation Commission Fund (0609) receives one-eighth of one percent of the revenues generated from sales and use tax. Oversight will report the impact to the Conservation Commission Fund as reported by DOR.

In response to similar legislation (SB 757 - 2020 Regular Session) that would exempt products from the state levied sales tax, the **Missouri Department of Natural Resources (DNR)** stated that creating the sales tax exemption could decrease the amount of funding available in the Parks and Soils Sales Tax Funds for long term operation of Missouri's state parks and historic sites and assistance to agricultural landowners through volunteer programs.

Oversight notes DNR'S Parks and Soils State Sales Tax Funds (0613 & 0614) receives one-tenth of one percent of the revenues generated from sales and use tax. Oversight will report the impact to the Parks and Soils State Sales Tax Fund(s) as reported by DOR.

Officials from the **Missouri Secretary of State's Office (SOS)** state each year, a number of joint resolutions that would refer to a vote of the people a constitutional amendment and bills that would refer to a vote of the people the statutory issue in the legislation may be considered by the General Assembly.

Unless a special election is called for the purpose, Joint Resolutions proposing a constitutional amendment are submitted to a vote of the people at the next general election. Article XII section 2(b) of the Missouri Constitution authorizes the Governor to order a special election for constitutional amendments referred to the people. If a special election is called to submit a Joint Resolution to a vote of the people, section 115.063.2 RSMo requires the state to pay the costs. The cost of the special election has been estimated to be \$7.8 million based on the cost of the 2016 Presidential Preference Primary.

ASSUMPTION (continued)

SOS is required to pay for publishing in local newspapers the full text of each statewide ballot measure as directed by Article XII, Section 2(b) of the Missouri Constitution and Section 116.230-116.290, RSMo. Funding for this item is adjusted each year depending upon the election cycle. A new decision item is requested in odd numbered fiscal years and the amount requested is dependent upon the estimated number of ballot measures that will be approved by the General Assembly and the initiative petitions certified for the ballot. In Fiscal Year 2014, the General Assembly changed the appropriation so that it was no longer an estimated appropriation.

In Fiscal Year 2019, over \$5.8 million was spent to publish the full text of the measures for the August and November elections. SOS estimates \$65,000 per page for the costs of publications based on the actual cost incurred for the one referendum that was on the August 2018 ballot.

SOS will continue to assume, for the purposes of this fiscal note, that it should have the full appropriation authority it needs to meet the publishing requirements. Because these requirements are mandatory, we reserve the right to request funding to meet the cost of our publishing requirements if the Governor and the General Assembly again change the amount or continue to not designate it as an estimated appropriation.

Oversight, for the purposes of this fiscal note, has reflected the cost to the state for reimbursing local political subdivisions the cost for having this joint resolution voted on during a special election in Fiscal Year 2021. This reflects the decision made by the Joint Committee on Legislative Research that the cost of special elections should be shown in the fiscal note. The next scheduled general election is in November 2020 (FY 2021). It is assumed the subject matter within this proposed legislation could be on the ballot of the November election; however, it could also be on a special election called for by the Governor (a different date). Therefore, Oversight will reflect the potential election cost of the reimbursement to local political subdivisions in Fiscal Year 2021 if a special election is called. Potential election costs will be ranged from \$0 (no special election) to \$7.8 million (special election is called).

Since various data sources will provide various price(s) on firearms and ammunition and since there is no known central data source that provides true estimates of the total amount of firearms and ammunition sold in nationally or within the State of Missouri, **Oversight** will, for purposes of this fiscal note report the revenue reduction(s) using a range beginning at \$0 (voters reject the constitutional amendment) to the estimates provided by DOR (voters approve the constitutional amendment).

FISCAL IMPACT - State Government

FY 2021
(6 Mo.)

FY 2022

FY 2023

GENERAL REVENUE FUND

Revenue Reduction - Article X - Section 27 - MO Constitution - Constitutional exemption of sales tax for firearms and ammunition p. 4

Less than
(\$21,063,000)

Less than
(\$42,126,000)

Less than
(\$42,126,000)

Transfer Out - Article X - Section 27 - Reimbursement to local election authorities **if** a special election is called for by the Governor

\$0 or
(\$7,800,000)

\$0

\$0

**ESTIMATED NET EFFECT ON
GENERAL REVENUE FUND**

\$0 or
(\$7,800,000) or
less than
(\$21,063,000 to
\$28,863,000)

\$0 or less than
(\$42,126,000)

\$0 or less than
(\$42,126,000)

**SCHOOL DISTRICT TRUST FUND
(0688)**

Revenue Reduction - Article X - Section 27 - MO Constitution - Constitutional exemption of sales tax for firearms and ammunition p. 4

\$0 or less than
(\$7,021,000)

\$0 or less than
(\$14,042,000)

\$0 or less than
(\$14,042,000)

**ESTIMATED NET EFFECT ON
SCHOOL DISTRICT TRUST FUND**

\$0 or less than
(\$7,021,000)

\$0 or less than
(\$14,042,000)

\$0 or less than
(\$14,042,000)

**CONSERVATION COMMISSION
FUND (0609)**

Revenue Reduction - Article X - Section 27 - MO Constitution - Constitutional exemption of sales tax for firearms and ammunition p. 4

\$0 or less than
(\$877,625)

\$0 or less than
(\$1,755,250)

\$0 or less than
(\$1,755,250)

**ESTIMATED NET EFFECT ON
CONSERVATION COMMISSION
FUND**

\$0 or less than
(\$877,625)

\$0 or less than
(\$1,755,250)

\$0 or less than
(\$1,755,250)

FISCAL IMPACT - State Government
 (continued)

FY 2021
 (6 Mo.)

FY 2022

FY 2023

**PARKS AND SOILS STATE SALES
 TAX FUNDS (0613 & 0614)**

Revenue Reduction - Article X - Section
 27 - MO Constitution - Constitutional
 exemption of sales tax for firearms and
 ammunition p. 4

\$0 or less than
(\$702,100)

\$0 or less than
(\$1,404,200)

\$0 or less than
(\$1,404,200)

**ESTIMATED NET EFFECT ON
 PARKS AND SOILS STATE SALES
 TAX FUNDS**

\$0 or less than
(\$702,100)

\$0 or less than
(\$1,404,200)

\$0 or less than
(\$1,404,200)

FISCAL IMPACT - Local Government

FY 2021
 (10 Mo.)

FY 2022

FY 2023

LOCAL ELECTION AUTHORITIES

Cost - Cost to local election authorities
 for special election **if** called for by the
 Governor

\$0 or
(\$7,800,000)

\$0

\$0

Transfer In - Reimbursement to local
 election authorities for cost of special
 election **if** called for by the Governor

\$0 or
\$7,800,000

\$0

\$0

FISCAL IMPACT - Small Business

This proposal could impact any small business that sales firearms or ammunition as they would not be required to remit the state portion of the sales tax, reducing their administrative costs. (Article X, Section 27, MO Constitution)

FISCAL DESCRIPTION

Upon voter approval, this proposed Constitutional amendment exempts firearms and ammunition from state sales tax. (Article X, Section 27, MO Constitution)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Missouri Department of Revenue
Missouri Secretary of State's Office
Missouri Department of Conservation
Missouri Department of Natural Resources



Julie Morff
Director
March 9, 2020



Ross Strobe
Assistant Director
March 9, 2020